Teachers' Pension Plan

1998

Annual Report

Teachers' Pension Board

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Respectfully Submitted

The Honourable Garde B. Gardom, Q.C.
Lieutenant-Governor
Province of British Columbia

May It Please Your Honour:
The undersigned respectfully submits the report of the business done in pursuance of the *Pension (Teachers) Act* during the fiscal year ended December 31, 1998.

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Minister:
I have the honour to lay before you the report of the business done in pursuance of the *Pension (Teachers) Act* during the fiscal year ended December 31, 1998.

John W. Cook
Chair
Teachers' Pension Board

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Message from the Board

I am pleased to present you with the Teachers' Pension Plan Annual Report for the fiscal year ending December 31, 1998. On behalf of the board, I would like to welcome all new members to the Teachers' Pension Plan. There are currently over 45,000 active plan members and over 14,000 pensioners.

The year has been a very productive one, with 1,370 pensions granted, representing a 31 per cent increase over 1997. The 1998 early retirement incentive program was a key factor in the increase. Purchases of service also continued at a relatively high volume, similar to 1996 and 1997, and more than double that of 1995.

The Teachers' Pension Board continues to challenge the commission to provide high standards in its service delivery to plan members and pensioners. The pension plan will, in the fall of 1999, benefit from the implementation of the commission's new Integrated Pension Administration System, which is key to further streamlining of pension processing and service improvement. During 1998, the commission has also focussed on readying critical systems as part of the government-wide Year 2000 effort.

The Teachers' Pension Plan is financially sound. Net assets grew 10 per cent in 1998, to $9.1 billion at December 31, 1998. The plan has a funding policy embedded in legislation to provide for the long-term reduction of the unfunded actuarial liability. The most recent actuarial valuation for December 1996 showed that the unfunded liability as a percentage of employer payroll has improved, and actuarial assets on a funding basis had risen to 87 per cent of liabilities. The next actuarial valuation will be as at December 31, 1999.

The pension board continues to focus on plan member communications as one of its highest priorities. A pensioner newsletter was introduced in 1998. Also, development work in 1998 continued towards the implementation of a public web site which opened in the spring of 1999. Plan members may access general information about their pension, on-line at pensions.gov.bc.ca. The commission continued to develop the series of *Pensionfacts* on various topics and produced a revised retirement kit.

December 31, 1998 Teachers' Pension Board Members

CHAIR
John W. Cook
Superannuation Commissioner

PLAN MEMBER REPRESENTATIVES
British Columbia Teachers' Federation
James Cairnie
Karen Harper
Robert Shanks

GOVERNMENT REPRESENTATIVES
Joan Axford
Rob Bennett
Bruce Kennedy

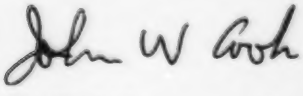
In 1994, pension reform established the Teachers' Pension Board, along with similar pension advisory boards for the other three statutory public sector plans (College, Municipal and Public Service). At that time, the boards made a commitment to continue pension reform, specifically, to reform the legislative structure and management of the plans. The government of British Columbia, the four boards and key stakeholder groups have been discussing the management of public sector pension plans for some time,

continues...

Message from the Board

and made considerable progress in 1998 towards their pension reform commitment. Out of those discussions new legislation – the *Public Sector Pension Plan Act* – was proposed. This legislation was tabled in the legislature and received Royal assent in July 1999. The new legislation will simplify public sector pension plan administration and management. It will also provide a mechanism for public sector pension plan stakeholders – government, employers, unions and plan members – to pursue a joint trustee arrangement, should it be desired. To ensure that you are informed about pension reform and have an opportunity to express your views, a special booklet on this topic was sent by the board to all active and retired plan members. It is also available through the commission's public web site.

The year under review has been very successful for the pension plan, and we intend to continue our technological and administrative progress to further enhance service to our clients. We anticipate another productive year in 1999.



John W. Cook
Chair

Financial and Operational Highlights

1998 Membership Profile

- 46,986 Active, 64%
- 12,205 Inactive or Vested and Deferred,* 17%
- 14,389 Pensioners, 19%

* Members no longer employed but with money in the plan.

1998 Revenue

- Investment Income, 68%
- Employer Contributions, 17%
- Member Contributions, 13%
- Province of BC Contributions, 1%
- Transfer from Other Plans, 1%

1998 Age Profile of Active Contributors

- < 40 years, 34.4%
- 40 – 49, 35.2%
- 50 – 59, 28.6%
- ≥ 60 years, 1.8%

Investments as at December 31

	1998	1997
Market Value ($ billions)	$9.1	$8.3
Basic Account Market Value Rates of Return		
Annual	9.7%	14.9%
Five-year Average	11.6%	14.0%
Inflation Account Market Value Rates of Return		
Annual	9.3%	14.1%
Five-year Average	11.1%	12.8%

Latest Actuarial Valuation December 31, 1996

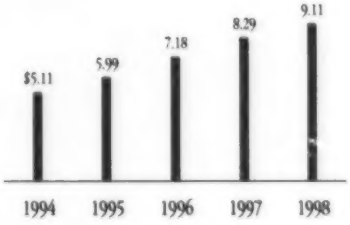
($ billions)

	Basic Pension Benefits Net Unfunded Liability	
	1996	1993
For Funding Purposes (statutory contributions)*	$1.34	$1.72
Ratio of Unfunded Liability to Covered Payroll*	66%	92%
Based on Accrued Benefits to December 31	$1.42	$1.78

*Assuming contributions continue at existing statutory rates.

Net Assets Available for Benefits as at December 31 (1994-98)

($ billions)



Financial and Operational Highlights

Five-year Summary Statement of Changes in Net Assets Available for Benefits (unaudited)

($ thousands)

For the Year Ended December 31	1998	1997	1996	1995	1994
Increase in Assets					
Net Investment Income					
Total Investment Income	$ 804,742	$1,074,963	$1,128,837	$ 806,860	$ 3,292
Investment Management Costs	(12,236)	(11,625)	(7,600)	(6,552)	(5,371)
	792,506	1,063,338	1,121,237	800,308	(2,079)
Contributions					
Members	144,052	144,083	140,518	129,598	125,315
Employers	202,263	199,083	195,264	187,808	179,471
Province of British Columbia	9,692	–	–	–	–
Transfers from Other Plans	11,261	7,367	11,021	7,306	3,378
Total Increase in Assets	1,159,774	1,413,871	1,468,040	1,125,020	306,085
Decrease in Assets					
Pension Benefits	301,238	270,853	246,925	222,195	203,024
Termination Benefits	12,971	11,451	8,579	7,447	5,914
Transfers to Other Plans	3,695	3,733	3,909	1,123	1,399
Pensioner Group Benefits	15,727	14,361	11,871	10,184	3,795
Pension Administration Costs	6,345	4,725	3,585	3,368	3,330
Total Decrease in Assets	339,976	305,123	274,869	244,317	217,462
Increase in Net Assets	819,798	1,108,748	1,193,171	880,703	88,623
Net Assets Available for Benefits at Beginning of Year	8,288,713	7,179,965	5,986,794	5,106,091	5,017,468
Net Assets Available for Benefits at End of Year	$9,108,511	$8,288,713	$7,179,965	$5,986,794	$5,106,091

	As a Percentage of Net Assets				
Pension Administration Costs	0.07%	0.06%	0.05%	0.06%	0.07%
Investment Management Costs	0.13%	0.14%	0.11%	0.11%	0.11%

Roles and Responsibilities

Teachers' Pension Board

The Teachers' Pension Board was established in 1994 to make recommendations to government regarding, among other things, the act and its regulations, changes in benefits, funding policy, contribution rates and the administrative budget of the Superannuation Commission. The board is responsible for preparation of the annual report of the plan, for reviewing and making recommendations to the ministry on investment policy and procedures, and for providing direction to the commissioner on the application of plan rules.

The board has seven members: three are named by the British Columbia Teachers' Federation and three by government. The commissioner acts as board chair.

The board has two committees:

- Benefits Committee
- Disability Pension Committee.

As well, board representatives participate on several interplan committees that deal with matters of common interest to the BC statutory pension plans (Teachers', College, Municipal and Public Service).

They are:

- Interplan Audit Committee
- Interplan Communications Committee
- Interplan Governance Committee.

Superannuation Commission

The Teachers' Pension Plan is governed by the *Pension (Teachers) Act* and related regulations. The Superannuation Commissioner is responsible for administering the act and the Teachers' Pension Fund. The Teachers' Pension Fund is the trust fund in which contributions accumulate and are invested to pay current and future pension benefits. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations.

Office of the Chief Investment Officer

The Teachers' Pension Plan investments are managed by the Office of the Chief Investment Officer (OCIO), an independent business unit operating within the Ministry of Finance and Corporate Relations. The Office of the Chief Investment Officer has over $50 billion under its administration and is one of the largest institutional investors in the country.

The chief investment officer is under legislative obligation to act in the best financial interest of the beneficiaries and in accordance with the fund's investment policies. The plan's investment policies have been approved by the trustee and the Teachers' Pension Board and are reviewed on an annual basis.

Investments

Message from the Chief Investment Officer

Markets In Review

Last year was one of the most volatile and worrisome in recent history. It began on an optimistic note as most analysts felt that Asia had weathered the worst of the currency crisis. However, by late spring, it was apparent that Asia's economic problems would be much more severe and protracted than first expected.

In mid-August, markets were caught off guard when Russia declared a moratorium on some of its debt obligations. This, combined with other events, led to a reduction in investors' risk tolerance and a drying up of capital flowing to emerging markets. Concerns about risk also affected developed markets and led to a tightening of credit conditions, falling stock prices and a reduction in liquidity. These conditions resulted in problems for some hedge funds, most notably Long-term Capital Management (LTCM). LTCM was a major player in the derivatives market and their collapse could have put the entire financial system at risk.

Fortunately, there was a dramatic reversal in the fourth quarter. The U.S. Federal Reserve arranged a bailout for LTCM and cut U.S. interest rates three times in rapid succession. This calmed investors and led to a strong rebound in stock prices. Most markets quickly recovered their losses and resumed an upward trend. Canada, however, was a notable exception, as the TSE 300 Index finished 1998 with a disappointing –1.6 per cent return.

The Teachers' pension fund holds a diversified portfolio and, as a result, it still ended the year with a 9.7 per cent return. While this is below the market benchmark of 10.5 per cent, the return is still quite good considering market conditions. In addition the return is higher than what was earned by the majority of Canadian plans in 1998.

Initiatives in 1999

There are three major initiatives facing my office in the current year. These are improving risk management operations, preparing for Y2K and revising our organizational structure.

The volatility of the market last year clearly illustrates the importance of risk management operations. We are in the process of a comprehensive review of our risk management framework to ensure that it will continue to serve our clients and protect their assets. Risk management needs to be integrated into daily business practices and continuously reviewed and improved.

I am pleased to report that our internal systems and those of our major suppliers are Y2K compliant. We have done everything practicable to prepare for the event, including having a contingency plan. In addition, we are examining how Y2K may affect the companies that we invest in.

In regards to our internal structure, we believe that there is a strong business case for placing investment operations at arm's length from government and ensuring that resource decisions are made in the best interest of the funds under administration. We are hopeful that such changes will be made as part of the pension reform process.

Doug Pearce
Chief Investment Officer

Investments

Approved Investment Asset Mix

Effective May 1996, the following asset mix policy range was approved by the trustee and the Minister of Finance and Corporate Relations and was reaffirmed November 1998.

	Market Value	
Asset Class	**Lower Limit**	**Upper Limit**
Debt	30%	50%
Short-term	0%	10%
Bonds	20%	50%
Mortgages	0%	10%
Equity	55%	70%
Canadian Stocks	25%	50%
U.S. Stocks	0%	14%
International Stocks	0%	14%
Real Estate	0%	10%
Private Placements	0%	2%

Strategic and short-term asset allocation targets are set within these ranges. Short-term for asset mix purposes includes Canadian government bonds with one-to five-year terms and money market funds.

Investment Portfolio

Investments Held as at December 31, 1998

Province of B.C. Pooled Investment Portfolio Units	**Market Value**	**Asset Mix % Market Value**
Money Market	$ 167,003,818	2%
Canadian Long-term Bonds		
Government	1,938,217,933	
Corporate	458,279,996	27%
Canadian Short-term Bonds (1-5 years)	239,543,474	2%
Canadian Equities		
Indexed	2,302,020,936	
Actively Managed	959,727,734	36%
U.S. Equities		
Indexed	674,669,628	
Actively Managed	307,104,891	11%
International Equities		
Asia	35,389,536	
Europe	281,751,855	
Europe, Australia and the Far East	551,953,125	10%
Real Estate	667,606,702	7%
Mortgages	285,117,551	3%
Private Placements	88,303,387	1%
Total Pooled Portfolios	$ 8,956,690,567	99%
Canadian Real Return Bonds	$ 112,541,040	1%
Canadian Equities	9,272,944	–
Real Estate	5,343,303	–
TOTAL INVESTMENTS	$ 9,083,847,853	100%
1997 Comparison	$ 8,253,995,361	

1998 Investment Holdings (Market Value)

($ millions)

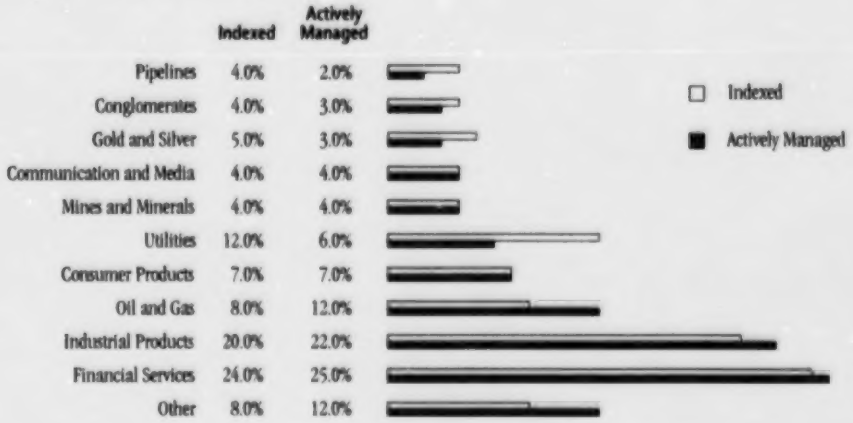
- Canadian Equities, $3,271.0 (36%)
- Canadian Long-term Bonds, $2,509.0 (28%)
- Real Estate, Mortgages, Private Placements, $1,046.4 (11%)
- U.S. Equities, $981.8 (11%)
- International Equities, $869.1 (10%)
- Short-term, $406.5 (4%)

Investments

Canadian Equities (Market Value)

- Indexed, 71%
- Actively Managed, 29%

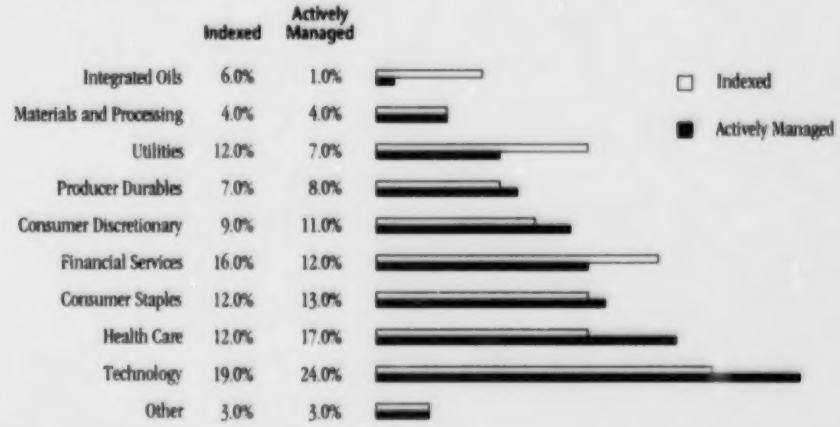
Canadian Equity Pools by Sector



U.S. Equities (Market Value)

- Indexed, 69%
- Actively Managed, 31%

U.S. Equity Pools by Sector



Canadian Bonds (Market Value)

- Government, 83% (direct or guarantee)
- Corporate, 17%

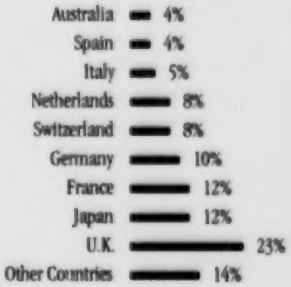
Real Estate Pool by Type

- Office, 32%
- Residential, 29%
- Industrial, 18%
- Retail, 14%
- Mixed-use, 7%

Real Estate Pool by Location

- Ontario, 49%
- B.C., 30%
- Alberta and Saskatchewan, 19%
- Nova Scotia, 2%

International Equities



Investments

Investment Performance

Market Value Rates of Return for the Year Ended December 31, 1998

	Basic Account	Inflation Adjustment Account	1998 Performance Benchmarks	
Five-year Average Rates				
1998	11.6%	11.1%	11.7%	
1997 Comparison	14.0%	12.8%	14.1%	
Annual Rates				
1998	9.7%	9.3%	10.5%	
1997 Comparison	14.9%	14.1%	14.7%	
1998 Annual Rates by Investment Category				**1998 Performance Benchmark Indices**
Short-term				
Money Market	5.1%	5.1%	4.7%	SCM 91 Day Treasury Bills
Short-term Bonds	6.7%	6.7%	6.6%	RBCB Short-term Government Bonds
Bonds				
Government	9.5%	9.5%	9.4%	SCM Government Universe
Corporate	7.5%	7.5%	8.1%	SCM Corporate Universe
Real Return	–	4.0%	–	
Canadian Equities				
Actively Managed	(2.5%)	(2.5%)	(1.6%)	TSE 300
Indexed				
TSE 300	(0.4%)	(0.4%)	(1.6%)	TSE 300
TSE 100	(0.0%)	(0.0%)	(0.4%)	TSE 100
U.S. Equities				
Actively Managed	32.6%	32.6%	36.3%	R 1000
Indexed	38.4%	38.4%	38.2%	S&P 500
International Equities				
Asia	9.5%	9.5%	10.0%	MSCI Pacific Basin Net
Europe	35.9%	35.9%	38.0%	MSCI Europe Net
Europe, Australia and the Far East	24.6%	24.6%	28.8%	MSCI EAFE Net
Real Estate	12.7%	12.7%	16.2%	R Canadian Property
Mortgages				
Fixed-term	8.0%	8.0%	7.8%	SCM Short-term Bonds + 1%
Construction	7.4%	7.4%	6.2%	SCM Treasury Bills + 1%

Performance Benchmark Indices Abbreviations:
SCM = Scotia Capital
RBCB = RBC Barra
MSCI = Morgan Stanley Capital International
S&P = Standard and Poor's
R = Russell
TSE = Toronto Stock Exchange

Source: Office of the Chief Investment Officer, Ministry of Finance and Corporate Relations

Net Earned Rate of the Fund

Year	%
1989	10.7
1990	10.3
1991	10.3
1992	8.0
1993	7.3
1994 [1]	10.2
1995	11.2
1996	11.7
1997	14.0
1998	11.6

[1] Effective 1994, rates of return are based on five-year average market value rates calculated by the Office of the Chief Investment Officer. Prior to 1994, rates were calculated on an adjusted cost basis.

Actuarial Valuation/Plan Funding

The adequacy of the contribution rates for funding the pension plan is assessed by an independent actuary every three years. The last valuation viewed the plan as at December 31, 1996; the next valuation will be done as at December 31, 1999.

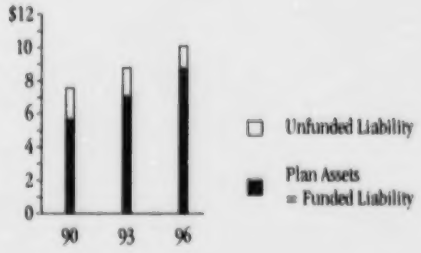
Plan legislation governs how the plan is to be funded. The plan is funded by both employee and employer contributions but, should a contribution rate increase be required, the funding policy requires that it be made to employer contributions only.

No statutory contribution rate increase will occur in the near future as long as the fund's relative financial health continues to improve, based on the key indicator, the unfunded liability as a percentage of the membership payroll covered by the plan.

The unfunded liability decreased as a percentage of covered payroll over the last three valuations, and in 1996 it shrank to 66 per cent of payroll, from 92 per cent in 1993. As a result, no contribution rate changes occurred. The indicator will be examined again as at December 31, 1999.

To assess funding, the valuation considers both benefits actually earned to date (accrued benefits) and benefits likely to be earned by a member for future service. Based on the 1996 valuation, actuarial assets on a funding basis represent 87 per cent of the liabilities of the plan.

Total Basic Benefit Liability for Funding Purposes
($ billions)



Latest Actuarial Valuation December 31, 1996
($ billions)

	Basic Pension Benefits Net Unfunded Liability		
	1996	1993	1990
For Funding Purposes (statutory contributions) *	$1.34	$1.72	$1.88
Ratio of Unfunded Liability to Covered Payroll *	66%	92%	120%
Based on Accrued Benefits to December 31	$1.42	$1.78	$1.94

* Assuming contributions continue at existing statutory rates.

Employers and Plan Membership

The Teachers' Pension Plan is a defined benefit plan open to all certified teachers, administrative officers, and superintendents or assistant superintendents hired by a board of school trustees in the British Columbia public school system. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer or until 35 years of pensionable service have accrued.

Participating employers are the 59 school districts, the College of Teachers, the Teachers' Qualification Service, the British Columbia Teachers' Federation, the British Columbia School Superintendents' Association, the British Columbia Principals' and Vice Principals' Association, and the Francophone Education Authority.

Member Services

Contributors and Contributions

Membership in the Teachers' Pension Plan remained relatively the same in 1998, with contributor growth at a modest 0.6 per cent. Today, there are over 59,100 plan members.

Contributions increased 3.8 per cent, to $356 million in 1998. This was primarily due to $9.7 million contributed by the Province of British Columbia to pay for the 1998 early retirement incentive program.

Contributors are defined as:

- active—those who are currently contributing, receiving benefits from an approved salary continuance plan or are on a leave of absence
  (Note: Historical numbers of active and inactive contributors have been restated to include leaves of absence as active.)
- vested and deferred—those who have terminated employment, and are eligible for a future pension
- inactive—those who have terminated employment, have contribution balances on record, but are not currently eligible for a future pension.

Number of Contributors

	Active	Inactive	Vested and Deferred	Total
1994	42,764	11,995	1,234	55,993
1995	43,524	12,461	1,205	57,190
1996	45,387	11,623	1,016	58,036
1997	46,510	11,288	1,019	58,817
1998	46,986	11,239	966	59,191

1998 Contributor Profile

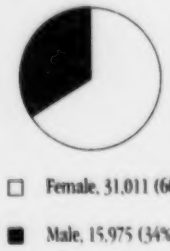
- Active, 79%
- Inactive, 19%
- Vested and Deferred, 2%

1998 Age Profile of Active Contributors

- < 40 years, 34.4%
- 40 – 49, 35.2%
- 50 – 59, 28.6%
- ≥ 60 years, 1.8%

Member Services

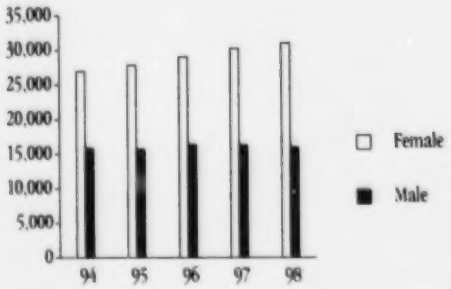
1998 Active Contributor Profile



□ Female, 31,011 (66%)

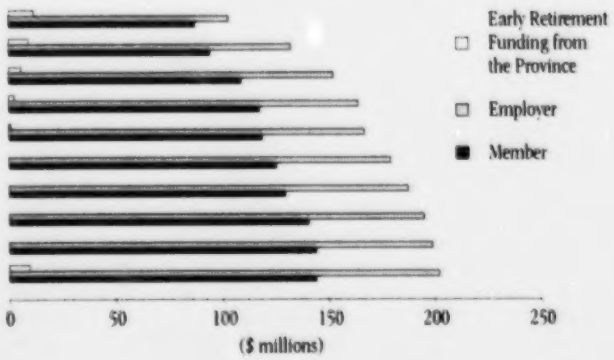
■ Male, 15,975 (34%)

Active Contributors



Contributions ($ millions)

	Early Retirement Funding from the Province	Employer	Member
1989	11.82	120.95	87.13
1990	9.14	132.44	94.21
1991	5.81	152.40	108.72
1992	2.55	164.25	117.43
1993	0.90	167.07	118.61
1994	–	179.47	125.32
1995	–	187.81	129.60
1996	–	195.26	140.52
1997	–	199.08	144.08
1998	9.69	202.26	144.05



Termination Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in Registered Retirement Savings Plan or a Registered Pension Plan, or
- a deferred pension.

The number of termination benefits paid in a given year can vary greatly, depending on the employment environment. Historical numbers show that there have been significant fluctuations over the last 10 years, with 1991, 1994, and 1998 showing relatively high numbers of termination benefits paid. The number of termination benefits paid in 1998 increased 31 per cent, while the value of benefits paid increased by $1.5 million (13 per cent).

Member Services

Prior to 1993, members who were terminating could either leave funds on deposit to be paid later as a pension benefit or take a refund of personal contributions, plus interest.

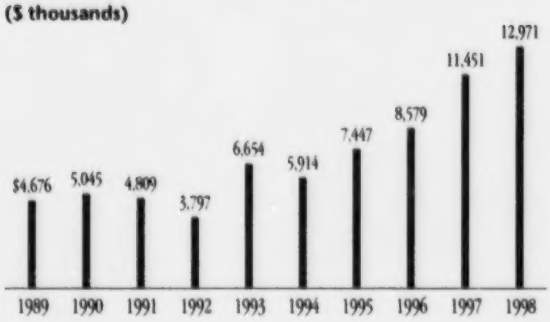
The value of a termination benefit increased significantly in 1993 with the introduction of the commuted value payment, which allows members to transfer the value to a locked-in Registered Retirement Savings Plan or equivalent vehicle. Typically, commuted values, which represent the net present value of a pension entitlement, are significantly higher dollar values than members' personal accumulated contributions.

If a member leaves the plan and takes a refund of contributions, the refund includes interest. Interest is compounded annually and credited to the member's contribution balance. The balance, including interest, is recorded in the plan member's annual benefit statement.

The rate of interest is governed by pension standards and pension plan legislation, and is based on average bank five-year personal term deposit rates.

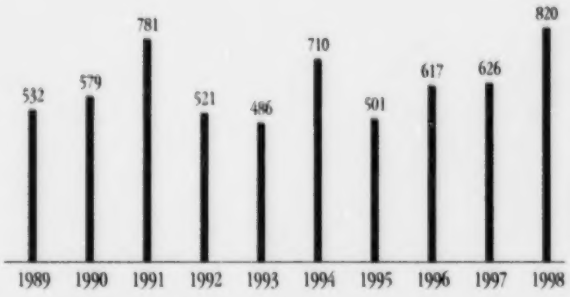
Value of Termination Benefits Paid

($ thousands)



Termination benefits paid include only the refund of contributions and commuted value payment options; deferred pensions are included in pension statistics.

Number of Termination Benefits Paid



Termination benefits paid include only the refund of contributions and commuted value payment options; deferred pensions are included in pension statistics.

Annual Rates for Interest Credited to Contribution Balances

1989	7.00%
1990	8.25%
1991	7.50%
1992	6.00%
1993	5.45%
1994	6.49%
1995	6.88%
1996	5.47%
1997	4.54%
1998	4.30%

Member Services

Pensions

The number of pensioners continues to grow. The number of pensions granted in 1998 increased 31 per cent over the number granted in 1997, largely because of the 1998 early retirement incentive program. The number of pensioners on payroll increased 8 per cent.

Pensions are paid at the end of each month, beginning the latest of:

- the month following the month in which the plan member becomes eligible, or
- the month following the month in which the plan member receives the final salary, or
- the month in which the Superannuation Commission receives the member's application.

Full payment is made for the month in which a pensioner dies.

Pensions 1989 – 1998

	Granted During Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ millions)	Inflation Supplements Paid ($ millions)	Total ($ millions)
1989	798	136	9,358	113.9	32.2	146.1
1990	370	178	9,550	122.5	37.9	160.4
1991	421	160	9,811	127.1	42.7	169.8
1992	506	181	10,136	133.4	49.7	183.1
1993	503	201	10,438	140.5	50.9	191.4
1994	668	228	10,878	150.1	52.9	203.0
1995	1,050	207	11,721	170.3	51.9	222.2
1996	970	228	12,463	192.0	54.9	246.9
1997	1,048	201	13,310	214.2	56.7	270.9
1998	1,370	291	14,389	242.2	58.8	301.2

Pensions Granted by Type 1989 – 1998

	Normal [1]	Death [1]	Disability [2]	Deferred	Total
1989	673	19	57	49	798
1990	266	23	32	49	370
1991	306	17	33	65	421
1992	369	33	38	66	506
1993	369	17	43	74	503
1994	540	15	43	70	668
1995	883	18	61	88	1,050
1996	787	13	69	101	970
1997	896	14	57	81	1,048
1998	1,207	19	59	85	1,370

[1] Pensions granted do not include any pension continued to a beneficiary upon the death of a pensioner.
[2] Includes members on long-term disability who became eligible for a regular pension.

Normal Pensions – Age at Retirement

Subdivided by years of service and age at retirement

Years of Service	Age ≤ 55	56 – 59	60 – 64	65	Total
< 10 years	4	18	28	13	63
10 – 14	9	21	16	4	50
15 – 19	20	38	14	5	77
20 – 24	29	72	33	10	144
25 – 29	36	104	61	6	207
30 – 34	128	333	77	9	547
≥ 35 years	23	64	27	5	119
Total	249	650	256	52	1,207

Percentage of Normal Pensions by Age

- ≤ 55 years, 21%
- 56 – 59, 54%
- 60 – 64, 21%
- ≥ 65 years, 4%

Member Services

Basic pensions have a significant value. The value depends on a number of factors, including the age, salary and service of the member at retirement.

The table at right shows the average asset value ("present value") of pensions granted during the year. The value represents approximately how much money it would cost to purchase an average basic pension, including partial indexing, provided under the Teachers' Pension Plan.

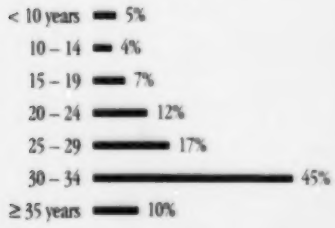
Normal Pensions Granted January 1, 1998 to December 31, 1998

Subdivided by years of service[1]

Years of Service	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ millions)
< 10 years	63	$45,000	$ 3,000	$ 43,000	$ 2.7
10 – 14	50	53,000	10,000	159,000	8.0
15 – 19	77	54,000	15,000	235,000	18.1
20 – 24	144	57,000	20,000	326,000	46.9
25 – 29	207	58,000	25,000	416,000	86.1
30 – 34	547	62,000	32,000	546,000	298.7
≥ 35 years	119	65,000	37,000	584,000	69.5
Total	1,207	n/a	n/a	n/a	$530.0
All Pension Average	n/a	59,000	25,000	439,000	n/a

[1] Years of Service includes service transferred from other plans.

Percentage of Normal Pensions by Years of Service



Member Services

Other

Portability Provisions

Portability is the provision that allows the carrying of some pension rights from one plan to another. For instance, members of the Teachers' Pension Plan may carry their years of pensionable service and contributions to a new place of employment and become a member of that new plan if there is a portability agreement with the new plan. Employers who allow a transfer of pension rights to other employers or pension plans are referred to as "reciprocal employers."

All plan members with contribution history in another pension plan are encouraged to inquire about portability agreements with the Teachers' Pension Plan.

In 1998, there were 283 reciprocal transfers from other plans totalling $11.3 million and 83 transfers out totalling $3.7 million.

Purchase of Additional Service

Additional service may be recognized as purchasable. Such service may include:

- approved leaves of absence
- arrears contributions, or
- reinstatement of refunded contributions.

The number and value of purchases of additional service decreased from 1997 to 1998. However, purchase levels are still more than double those of 1995. Effective January 1, 1996, a new plan provision allowed members to pay for leave of absence and reinstate refunds.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ thousands)	
	1998	1997	1998	1997
Approved Leaves of Absence	963	1,066	$ 4,205	$ 4,276
Arrears Contributions	81	64	320	307
Reinstatement of Refunded Contributions	733	875	7,665	9,489
Total	1,777	2,005	$12,191	$14,072

Plan Communications

The board is making every effort to ensure changes and improvements to the plan are communicated to all plan stakeholders. Recent publications include expanded topics in *Pensionfacts*. A revised plan member booklet is under development.

Financial Statements

Report of the Auditor General of British Columbia

To the Superannuation Commissioner, Trustee, and

To the Minister of Finance and Corporate Relations, Province of British Columbia:

I have audited the statement of net assets available for benefits of the *Teachers' Pension Plan* as at December 31, 1998 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Superannuation Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Teachers' Pension Plan* as at December 31, 1998 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Victoria, British Columbia
April 26, 1999

Financial Statements

BRITISH COLUMBIA

TEACHERS' PENSION PLAN

ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan were prepared by the Superannuation Commission, the administrator of the plan. The commission is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Superannuation Commission maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.

JOHN W. COOK, F.C.I.A.,
Chair, Teachers' Pension Board,
Superannuation Commissioner,
Trustee

P. LOUIE YOUNG, C.A.,
Executive Director, Plan Finance
Superannuation Commission

April 26, 1999

Superannuation Commission
Office of the Commissioner
Mailing Address:
PO Box 9480 Stn Prov Govt
Victoria BC V8W 9V8
Telephone: (250) 387-8201
Facsimile: (250) 387-4199
Location:
2995 Jutland Road, Victoria

Financial Statements

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	1998	1997
ASSETS		
Investments (Note 3)	$ 9,083,848	$ 8,253,995
Receivables		
Members' contributions	7,944	16,355
Employers' contributions	12,764	23,685
Accrued interest and dividends	822	752
Other	6	23
	21,536	40,815
Prepaid expense	857	729
Cash	10,819	216
Total Assets	9,117,060	8,295,755
LIABILITIES		
Accounts payable and accrued expenses	8,549	7,042
Total Liabilities	8,549	7,042
NET ASSETS AVAILABLE FOR BENEFITS	$ 9,108,511	$ 8,288,713

Obligations for Accrued Pension Benefits for Accounting Purposes (Note 7)

The 11 accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair, Teachers' Pension Board,
Superannuation Commissioner,
Trustee

P. Louise Young, C.A.,
Executive Director, Plan Finance
Superannuation Commission

Financial Statements

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 1998	Totals 1997
INCREASE IN ASSETS					
Net investment income (Note 4)	$ 697,256	$ 95,250	$ -	$ 792,506	$ 1,063,338
Contributions (Note 5)					
Members	122,800	21,252	-	144,052	144,083
Employers	178,034	7,960	16,269	202,263	199,083
Province	7,231	2,461	-	9,692	-
	308,065	31,673	16,269	356,007	343,166
Transfers from other plans	10,659	602	-	11,261	7,367
Total Increase in Assets	1,015,980	127,525	16,269	1,159,774	1,413,871
DECREASE IN ASSETS					
Pension benefits paid					
Contributory	242,385	-	23	242,408	214,189
Indexing supplements	58,830	-	-	58,830	56,664
	301,215	-	23	301,238	270,853
Termination benefits paid	11,056	1,454	461	12,971	11,451
Transfers to other plans	3,126	569	-	3,695	3,733
Pensioner group benefits	-	-	15,727	15,727	14,361
Administration costs (Note 9)	6,287	-	58	6,345	4,725
Total Decrease in Assets	321,684	2,023	16,269	339,976	305,123
INCREASE IN NET ASSETS BEFORE TRANSFERS	694,296	125,502	-	819,798	1,108,748
Account transfers (Note 6)	(105,864)	105,864	-	-	-
INCREASE IN NET ASSETS	588,432	231,366	-	819,798	1,108,748
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	7,090,858	1,197,855	-	8,288,713	7,179,965
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$7,679,290	$1,429,221	$ -	$ 9,108,511	$ 8,288,713

Supplemental Benefits Account (Note 10)

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The Teachers' Pension Plan (the plan) is governed by the *Pension (Teachers) Act* (the act) and related regulations. The following brief description of the plan is provided for general information only. For more information refer to the act.

a) General

The plan is a contributory defined benefit pension plan open to all certified teachers and to superintendents or assistant superintendents appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The Superannuation Commissioner is responsible for administering the act and for administering the Teachers' Pension Plan and serves as the trustee for the plan. The Teachers' Pension Fund is the trust fund in which contributions accumulate and are invested to pay current and future pension benefits. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations of British Columbia.

The Teachers' Pension Board was established under the act to make recommendations to government regarding, among other things, the act and its regulations, changes in benefits, funding policy, contribution rates and the administrative budget of the commission. The board is responsible for preparation of the annual report of the plan, for reviewing and making recommendations to the Ministry of Finance and Corporate Relations on investment policy, and for providing direction to the commissioner on the application of plan rules. The commissioner is chair of the board.

The commissioner, as trustee, places funds available for investment with the Minister of Finance and Corporate Relations. The Office of the Chief Investment Officer, of the Ministry of Finance and Corporate Relations, is responsible for investment management.

c) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Pension Benefits (continued)

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service equalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is .7% of the lesser of YMPE or the HAS, for each year of the member's pensionable service since January 1, 1966 (when CPP was introduced).

Increases to pension payments are provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6).

At January 1, 1998 pensioners received a full CPI increase of 1.6% (1997 – 1.5%).

d) Termination Benefits and Reciprocal Arrangements

A terminating member who is not eligible for a pension may receive a refund of contributions with interest.

A terminating member who is eligible for a pension, may choose one or more of the following benefits:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit to a locked-in or similar tax-sheltered plan.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

d) Termination Benefits and Reciprocal Arrangements (continued)

For deferred pension benefits, the highest five-year average annual salary used in the benefit calculation is adjusted at the time the pension is granted for cost of living changes during the deferral period.

The plan has reciprocal pension arrangements with certain other pension plans which may benefit members who have service under those plans.

e) Other Benefits

Supplemental (Note 10), disability and survivor benefits are also available under the plan. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

f) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* and is not subject to income taxes, except for any supplemental benefits (Note 10) which are provided in addition to the RPP.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employers and members.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

3. INVESTMENTS (Market Value)

	1998			1997
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 134,201	$ 32,803	$ 167,004	$ 50,581
Canadian Bonds	2,347,337	401,245	2,748,582	2,527,809
Canadian Equities	2,812,206	458,816	3,271,022	3,145,543
U.S. Equities	843,567	138,208	981,775	919,364
International Equities	747,136	121,959	869,095	809,119
Mortgages	251,299	33,818	285,117	175,044
Real Estate	580,247	92,703	672,950	590,316
Private Placements	88,303	-	88,303	36,219
	$7,804,296	$1,279,552	$9,083,848	$8,253,995

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the Office of the Chief Investment Officer. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

4. INVESTMENT INCOME

	1998			1997
	Income Allocation	Current Period Change in Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 4,257	$ 95	$ 4,352	$ 4,074
Canadian Bonds	137,752	61,407	199,159	184,170
Canadian Equities	47,556	(58,994)	(11,438)	393,209
U.S. Equities	18,619	241,647	260,266	224,889
International Equities	14,291	155,897	170,188	47,202
Mortgages	13,886	1,542	15,428	8,153
Real Estate	28,668	39,402	68,070	86,001
Private Placements	1,003	915	1,918	420
	$266,032	$441,911	$707,943	$948,118
Investment Management Costs			(10,687)	(10,254)
Net Investment Income			$697,256	$937,864

	1998			1997
	Income Allocation	Current Period Change in Market Value	Total	Total
			($ Thousands)	
Inflation Adjustment Account				
Short-term	$ 756	$ 23	$ 779	$ 1,154
Canadian Bonds	21,994	6,234	28,228	22,653
Canadian Equities	7,486	(16,843)	(9,357)	53,488
U.S. Equities	2,829	35,866	38,695	31,221
International Equities	2,125	23,892	26,017	6,284
Mortgages	1,799	221	2,020	1,029
Real Estate	4,330	6,087	10,417	11,016
	$41,319	$ 55,480	$ 96,799	$ 126,845
Investment Management Costs			(1,549)	(1,371)
Net Investment Income			$ 95,250	$ 125,474
Total Investment Income			$804,742	$1,074,963
Total Investment Management Costs			(12,236)	(11,625)
Total Net Investment Income			$792,506	$1,063,338

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

4. INVESTMENT INCOME (continued)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the Ministry of Finance and Corporate Relations, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	1998				1997
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Members' contributions					
Regular	$113,320	$20,867	$ -	$134,187	$132,201
Arrears	121	12	-	133	110
Leave of absence	1,809	258	-	2,067	2,283
Refund reinstatement	7,550	115	-	7,665	9,489
	122,800	21,252	-	144,052	144,083
Employers' contributions					
Regular	175,980	7,689	-	183,669	181,991
Arrears	172	15	-	187	197
Leave of absence	1,882	256	-	2,138	1,993
Supplemental benefits	-	-	16,269	16,269	14,902
	178,034	7,960	16,269	202,263	199,083
Province's contributions					
Early Retirement Incentive Program	7,231	2,461	-	9,692	-
Total Contributions	$308,065	$31,673	$16,269	$356,007	$343,166

The Province of British Columbia paid $9.7 million to the pension fund in 1998 to fund the cost of a 1998 early retirement incentive program for teachers.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

6. ACCOUNT TRANSFERS

	1998		1997	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 37,921	$(37,921)	$ 31,733	$ (31,733)
Indexing of deferred pensions	2,109	(2,109)	2,091	(2,091)
Excess interest	(145,895)	145,895	(157,859)	157,859
Other	1	(1)	(1)	1
	$(105,864)	$105,864	$ (124,036)	$124,036

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members (Note 8), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the Inflation Adjustment Account to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the Inflation Adjustment Account to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $2.7 billion of assets for 1998; $2.4 billion for 1997). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.5%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 1998 was 5.4%. Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

For accounting purposes, the plan actuary values pension assets as at, and pension liabilities accrued to, the financial statement date. An actuarial valuation is performed every three years. The latest valuation was made as at December 31, 1996 by Eckler Partners Ltd. At that valuation, net assets were $5.39 billion (1993 - $3.93 billion) and liabilities for accrued pension benefits were $6.81 billion (1993 - $5.71 billion), resulting in a net deficiency of $1.42 billion (1993 - $1.78 billion).

The present value of liabilities for accrued basic pension benefits was determined using the projected benefit method prorated on service. Accrued basic pension benefits include all indexing granted to the date of valuation, but not future indexing. The underlying basis for the net asset valuation is a five-year investment market smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.50%
- annual salary escalation rate 5.00%

The 1996 valuation results were extrapolated to December 31, 1998 using the same long-term assumptions. The extrapolated net assets are $6.32 billion and the liabilities are $7.91 billion, with a resulting extrapolated deficit of $1.59 billion.

In the short term, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation. While the actual experience is recognized when the complete actuarial valuation takes place every three years, these variances can limit the accuracy of short-term extrapolations made between valuation dates. The next formal actuarial valuation will be as at December 31, 1999.

8. FUNDING

a) Contributions

Basic Account

Members contribute to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($36,900 in 1998) and 6.5% of salaries above that.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

8. FUNDING (continued)

a) Contributions (continued)

Basic Account (continued)

Employers contribute to the Basic Account 8.0% of salaries up to the YMPE and 9.5% of salaries above that, less amounts allocated to the Supplemental Benefits Account (1998 - $358,000; 1997 - $500,000) (see Note 10).

The resulting combined member and employer contribution rate as at December 31, 1998 for salaries above the YMPE is 16.0%.

Inflation Adjustment Account and Supplemental Benefits Account

Members contribute 1.0% of salaries to the Inflation Adjustment Account and employers contribute 1.13% of salaries to the Inflation Adjustment, less amounts allocated to the Supplemental Benefits Account (1998 - $15.9 million; 1997 - $14.4 million) (see Note 10).

b) Actuarial Valuation for Funding Purposes

An actuarial valuation of the plan's assets and pension obligations is performed every three years to determine an appropriate combined employer and member contribution rate to fund the plan. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on a level contribution method. Using this method, the contribution rate consists of two elements:

- a level rate which will fully pay for benefits earned by typical new entrants to the plan; and
- a level rate which will maintain the plan's unfunded actuarial liability (UAL) as a constant percentage of employer payroll, assuming future contributions are also made at the above rate.

The most recent actuarial valuation for funding purposes was prepared as at December 31, 1996. This valuation disclosed an unfunded liability for basic pension benefits of $1.34 billion (1993 - $1.72 billion), assuming future contributions at the existing statutory rates.

As a result of this valuation, the actuary's calculated level contribution rate for basic pension benefits was 16.43% for salaries above the YMPE. The level contribution rate has not been implemented, as discussed in Note 8(c) below.

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8. FUNDING (continued)

b) Actuarial Valuation for Funding Purposes (continued)

The following table shows a key indicator of the financial health of a pension plan, the unfunded actuarial liability/(UAL) surplus as a percentage of payroll, for the four most recent actuarial valuations. (Values shown in the table assume future contributions at the statutory rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (c)	Covered Payroll (d)	UAL as a Percentage of Payroll (c/d)
		($ Billions)			
1987	$4.24	$ 5.85	$1.61	$1.17	138%
1990	5.68	7.56	1.88	1.57	120%
1993	7.07	8.79	1.72	1.87	92%
1996	8.77	10.11	1.34	2.03	66%

c) Funding Policy

July 1994 changes to the act affirmed the level contribution method as the funding policy for the plan. This policy calls for any increases in the UAL as a percentage of employer payroll to be amortized, by way of an increase in employer contributions, over not more than 15 years. However, the legislation also requires, on a transitional basis, that no increase in employer contributions is to occur, as long as the plan's financial experience remains the same or continues to improve from one valuation to the next, based on the UAL as a percentage of employer payroll (see table in Note 8(b)). The act also requires that if the UAL increases as a percentage of payroll from one actuarial valuation to the next, and:

- if the UAL is greater than 50%, then employer contribution rates will be increased to reduce the UAL to 50% over not more than 35 years; or
- if the UAL is 50% or less, then the long-term funding policy becomes effective, and the contribution rate recommended by the actuary, based on that policy, will be implemented.

If a surplus arises, it may be amortized, by a reduction in employer contributions, over not less than 15 years.

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8. FUNDING (continued)

c) Funding Policy (continued)

As noted in the final column of the table in Note 8(b), the plan's financial status improved at the last valuation and accordingly, the statutory contribution rates have not been increased.

9. RELATED PARTY TRANSACTIONS

a) Administration Costs

Administration costs include general administration costs and actuarial fees. General administration costs incurred by the Superannuation Commission are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. General administration costs include all salaries, Teachers' Pension Board expenses, and other operating and administration costs.

b) Investment Management Costs

The Office of the Chief Investment Officer (OCIO) has statutory responsibility for managing investments on behalf of the plan and uses internal and external investment managers for this purpose. Total investment management fees for 1998 were $12.24 million. Of this amount, $1.14 million was charged for OCIO's internal investment management services (1997 - total fees $11.63 million; internal management services $1.17 million).

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account provides for the payment and funding of supplemental benefits, such as contributions and pension benefits which exceed Revenue Canada limits, and group medical, extended health and dental benefits for pensioners. Pensioner group benefits are fully funded by employer contributions.

11. YEAR 2000 SYSTEMS ISSUE

The Year 2000 systems issue arises because many date sensitive computer systems use two digits rather than four to identify a year and, therefore, may not correctly recognize the Year 2000. As a result, if all related system problems are not fully identified and fixed, the impact on operations and financial reporting could range

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11. YEAR 2000 SYSTEMS ISSUE (continued)

from minor errors to system failures and could occur before, on or after January 1, 2000. The Superannuation Commission, whose computer systems support the administration of the Teachers' Pension Plan, is making all reasonable efforts to ensure that the Year 2000 issue is addressed, including working with other government departments, employers and suppliers to do so.

The commission has reviewed all its computer systems for year 2000 problems and work is well underway to modify or replace all systems which are not already year 2000 ready. The two main computerized systems that support pension administration are the pension payment system and the contributor system. The pension payment system was designed with four digit years, with the Year 2000 in mind. Therefore problems are not anticipated with this system. However, as a precautionary measure, this system is also being tested. The contributor system is on schedule for replacement with a Year 2000 ready system in 1999, and the existing system has been modified and tested to be Year 2000 ready as a contingency measure.

The commission is making every effort to identify and resolve the Year 2000 issue. However, because of the pervasive nature of the problem, it is not possible to be absolutely certain that all aspects of the problem affecting the commission, including those related to the efforts of employers, suppliers or other third parties will be resolved. The commission, however, is developing contingency plans to ensure that critical services continue, such as the payment of pensions, should an unanticipated system failure occur.